



## KASB SECURITIES LIMITED

## Ratings (June 2007)

## KASB Securities Limited (KSL)

Entity	New	Previous
Long-term	A+	A+
Short-term	A1	A1

## TFCs

(PRIVATELY PLACED, SECURED)

Issue (PKR 500mln) AA-

## Financial Data

PKR (mln)

	31-Mar-07 <sup>^</sup>	30-Jun-06
Total	2,416.5	1,461.7
Assets		
Equity	625.1	496.9
Net Income	124.5	187.5
ROE (%)	23.07*	45.32
ROA (%)	5.77*	12.51

<sup>^</sup> Based on audited results for 9 months ended 31-Mar-07

\* Non Annualised

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## TFC ISSUE

KSL is in process of issuing its first secured TFCs of PKR 500mln in June07 for a tenor of five years, carrying profit at the rate of 6-month KIBOR plus 190bps, payable semi-annually, with no floor and no cap. The major principal will be redeemed in three equal semi-annual installments (33.3% each), starting from 48<sup>th</sup> month. The TFC has *Call Options* exercisable in full at any time after 1 year on a coupon date, at 30 days notice at a premium of 0.50% on the outstanding face value. The instrument is secured by way of first ranking pari passu charge on all present and future current assets as well as first ranking charge on present and future fixed asset, with 25% margin. The proceeds of the TFC issue, in addition to building branch network and technology, would be utilized towards supporting growing business volume and offering margin financing facility.

## ASSESSMENT

- The rating reflects the company's strong position in the country's capital market industry, an outcome of its established franchise supported by an advanced technology infrastructure, effective risk management systems and extensive research skills. Meanwhile, the company's investment banking division, while adding diversity, supplements core revenues. The company's association with Merrill Lynch – one of the world's largest investment banking and asset management entities – is also a key rating factor.
- Equity brokerage is the forte of KSL, though it also provides fixed income / money market and forex brokerage services. The company, as against most other equity brokers, has a sizeable business volume originating from foreign investors. The management, in addition to reinforcing its sourcing business through ML, has taken various steps to establish sustainable foreign brokerage relationships. In this context, it has organized a series of investors' conferences in Singapore, London and Middle East with participation from major corporates of Pakistan and internationally active investors. Additionally this has helped local corporates in exploring global capital markets.
- In terms of local equity brokerage business, institutional clientele has the major contribution followed by high networth individuals. Retail investors have a modest contribution towards the total. In order to attract a large number of retail investors, the company has established internet based trading solution – KASB Direct. To bolster the business through this source, which currently is growing gradually, the company is considering further advancement in systems. KSL is also encouraged its relatively low-volume individual clients to switch to KASB Direct. This is expected to help the company in efficient utilization of human and infrastructure resources, while improving quality of services to high-volume clients. An important strength of KSL for attracting a higher volume of business is the quality of its research work. This is an outcome of the company's strong research team that benefits from its regular liaison with ML in addition to continuous enhancement of analytical skills through training.
- KSL with improving brokerage volume – standalone and as a percentage of total volume on Karachi Stock Exchange – has shown robust performance. This is supplemented by investment banking revenues. The company has a relatively high cost structure mainly due to its technology related expenditure and focus on building foreign clientele. This is expected to benefit the company in the medium to long-term in terms of incremental business volume and profitability. The management also plans to increase its participation in money market / fixed income brokerage services. KSL offers a wide range of investment banking services. Its association with ML's investment banking group has improved its competitiveness for big-ticket assignments. This, in addition to a track record of successful completion of a number of transactions, is expected to ensure a reasonable deal flow, going forward.
- KSL continuously reviews its risk management systems including exposure limits and margin requirements in line with changing market dynamics. The company has established an independent Risk and Compliance Department, which is responsible for monitoring the client position and timely implementation of designed corrective measures. The company, however, remains relatively subjective in imposing margin limits on off line clients with an established relationship. Although the counter-party risk can arise in CFS, the retention of sufficient margins substantially mitigates the associated risk. The company's investment policy suggests long-term investment horizons and does not seek speculative gains from the market, largely mitigating the market risk. The company also uses this portfolio as collateral for arranging short-term financing. Subsequent to the issue of proposed TFC, the company intends to modestly increase the size of its strategic investment portfolio. However, it would be done after establishing proper firewall between brokerage and proprietary investment business.
- Currently, KSL's capital structure is primarily equity based with debt being mainly a function of CFS financing and occasionally utilized for timely settlement to the clearinghouse. Subsequent to the proposed TFC issue, though the company's debt to equity ratio is expected to increase to around 100%, it would remain adequate. However, given that currently the company is following an aggressive dividend payout policy due to relatively subdued performance of its parent KASB Bank Limited, it is unlikely that its capital structure would experience any material improvement because of its good performance. Nevertheless, in case the proposed change in the company's ownership structure is successfully executed, this would support the risk absorption capacity because of higher ability of profit retention.

## KEY RATING DRIVERS

- The ratings are depended on the company's ability to sustain its established niche in equity brokerage, particularly in foreign business, in an increasingly competitive environment. Moreover, given a higher degree of reliance on human resource, induction of additional professional staff, and retention would remain critical for effective management of expanding business volume. At the same time, availability of continuing support from ML is also important. Meanwhile, any sizeable direct exposure in equity investments without implementing proper control, exposing the company's revenues to a high degree of volatility, could have negative implication on ratings.

## PROFILE

- KASB Securities Limited is a successor to brokerage business started by Mr. Khadim Ali Shah Bukhari (Late) in mid fifties, corporatized in 1991 as Khadim Ali Shah Bukhari & Company Limited. Later on it was merged with KASB Bank Limited (KBL) in 2003 subsequent to its acquisition by KASB group. KSL was incorporated as a wholly owned subsidiary of the bank with transfer of all brokerage related business.
- KASB group is currently working on certain restructuring within the group. In this regard, a new company - KASB Capital Limited - has been incorporated and entire ownership of KSL is planned to be transferred to this new company from KBL. KASB Capital, after the completion of restructuring, would be jointly owned by Bukhari Family, KBL and a foreign investor, with a capital of above PKR 3,000mln.
- KSL, mainly a brokerage house, provides a range of services including investment banking, research, strategic portfolio management and investment consultancy. The current CEO, Mr. Farukh H. Sabzwari, an MBA, joined the company in Jan 2005 and holds around 15 years of experience in investment banking and broking businesses. A team of experienced professionals backs him. The company continues to focus on its core areas of expertise and has successfully improved the quality of its research products and execution ability while also strengthening its relationship with Merrill Lynch.